

Department of Personnel

**For the Years Ended
June 30, 1998, and June 30, 1997**

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August 25, 1999

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Eleanor E. Yoakum, Commissioner
Department of Personnel
Second Floor, James K. Polk Building
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Department of Personnel for the years ended June 30, 1998, and June 30, 1997.

We conducted our audit in accordance with generally accepted government auditing standards. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the Department of Personnel's compliance with the provisions of laws, regulations, contracts, and grants significant to the audit. Management of the Department of Personnel is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit disclosed a finding which is detailed in the Objectives, Methodologies, and Conclusions section of this report. The department's administration has responded to the audit finding; we have included the response following the finding. We will follow up the audit to examine the application of the procedures instituted because of the audit finding.

We have reported other less significant matters involving the department's internal controls and/or instances of noncompliance to the Department of Personnel's management in a separate letter.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/klm
99/068

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit

Department of Personnel

For the Years Ended June 30, 1998, and June 30, 1997

AUDIT SCOPE

The audit of the Department of Personnel for the period July 1, 1996, through June 30, 1998, included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of equipment, expenditures, sick leave bank, payroll, and compliance with the Financial Integrity Act. The audit was conducted in accordance with generally accepted government auditing standards.

AUDIT FINDING

Failure to Obtain Fully Executed Contracts

Fully executed contracts were not obtained before contract services were provided. If contracts are not fully executed before services are provided, the state could be obligated to pay for unauthorized services (page 4).

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

Audit Report
Department of Personnel
For the Years Ended June 30, 1998, and June 30, 1997

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Department of Personnel

For the Years Ended June 30, 1998, and June 30, 1997

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Department of Personnel. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

The department, one of the staff agencies of the executive branch, is under the Commissioner of Personnel. The department serves in an advisory capacity to the Governor, assisting him in formulating and executing all personnel policies and procedures for employees in state service and applicants for positions. It administers the provisions of the Civil Service Act, prescribes rules and regulations governing state employees, and strives to establish a modern and effective system of personnel management. It also coordinates the Governor’s Affirmative Action Plan, which ensures that women and all minority persons are given an opportunity for equal employment in all state agencies in the executive branch. The department comprises the Divisions of Technical Services, Human Resources, and Executive Administration.

Technical Services Division - This division is responsible for maintaining state personnel records, administering civil service examinations, monitoring the civil service appointment process, and auditing the state payroll.

Human Resources Division - This division is responsible for coordinating and conducting training courses for state employees, implementing the state’s affirmative action program, and supporting employee relations. It administers the state employee Sick Leave Bank, coordinates the state’s Employee Suggestion Program, provides administrative support for the Civil Service Commission, and ensures compliance with provisions of the Americans with Disabilities Act.

Executive Administration Division - This division is responsible for the fiscal management of the department and for developing and maintaining technically sound personnel management programs to assist state managers and supervisors. This division is represented by the commissioner, who also serves as secretary to the Civil Service Commission.

An organization chart of the department is on the following page.

AUDIT SCOPE

The audit of the Department of Personnel for the period July 1, 1996, through June 30, 1998, included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of equipment, expenditures, sick leave bank, payroll, and compliance with the Financial Integrity Act. The audit was conducted in accordance with generally accepted government auditing standards.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

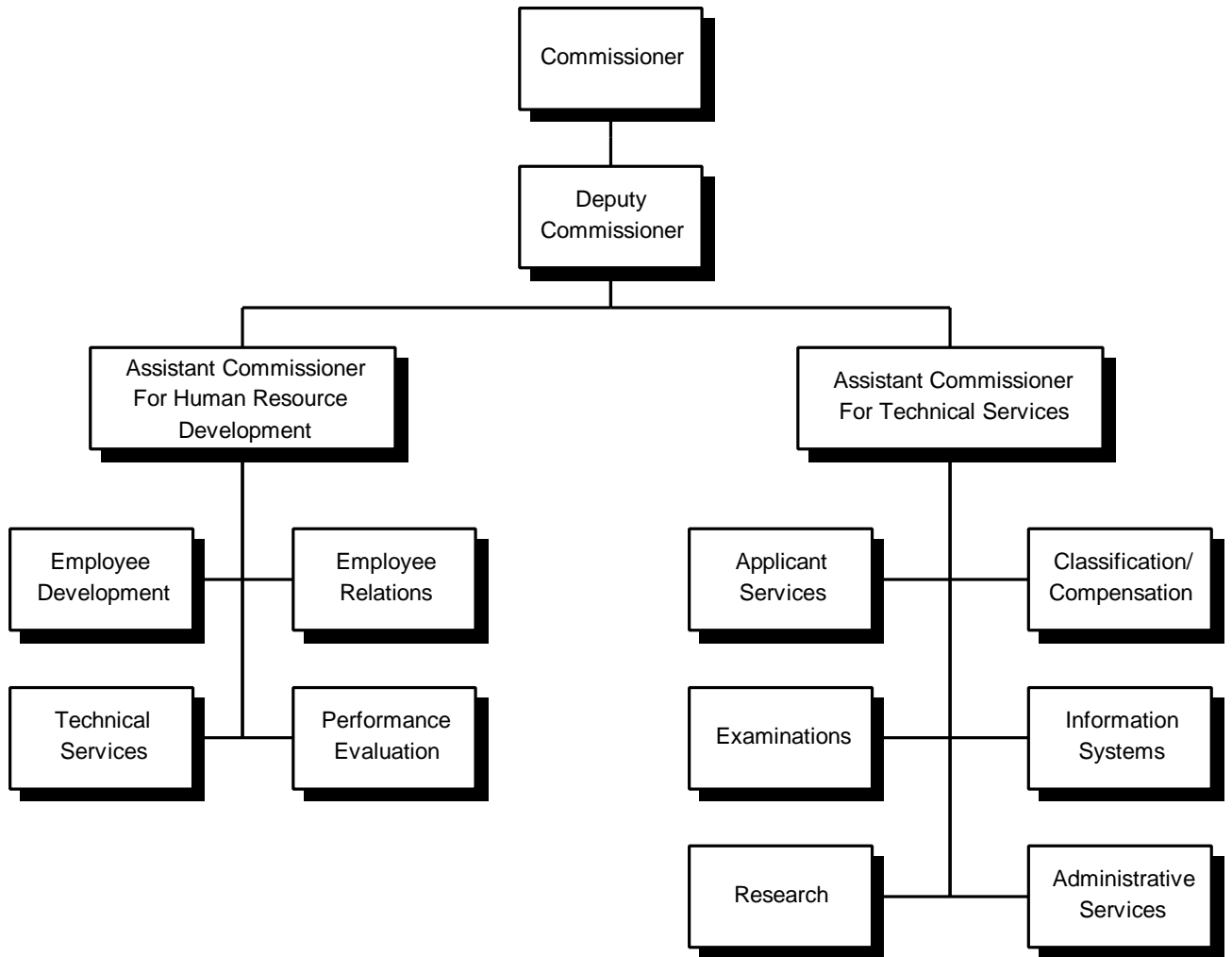
EQUIPMENT

The objectives of the review of the equipment procedures and controls were to determine whether

- equipment included on the Property of the State of Tennessee (POST) Exception Report was located or deleted from POST;
- equipment was correctly listed on POST;
- equipment was adequately safeguarded; and
- equipment sold, abandoned, damaged, or obsolete was removed from POST.

Key personnel were interviewed to gain an understanding of the department's procedures and controls over the inventory of equipment owned by the department. Supporting documentation was reviewed and samples of equipment maintained throughout the department were tested. There were no findings related to equipment; however, some minor weaknesses have been reported to management in a separate letter.

Department of Personnel



EXPENDITURES

The objectives of the review of the expenditures procedures and controls were to determine whether

- expenditures were for authorized goods and services,
- expenditures for goods or services were allowable in accordance with the budget and other regulations or requirements,
- payments were made in a timely manner,
- travel expenditures were made in accordance with the Comprehensive Travel Regulations,
- contracts were made in accordance with regulations, and
- contract payments were in compliance with contract terms and properly approved and recorded against the contract.

Key personnel were interviewed to gain an understanding of the department's procedures and controls over expenditures. Supporting documentation was also reviewed, and samples relating to travel and contracts were tested. We determined that the department failed to obtain fully executed contracts before the contract period began, as discussed in the finding. In addition to the finding, other minor weaknesses have been reported to management in a separate letter.

Failure to obtain fully executed contracts before the contract period began

Finding

The Department of Personnel failed to obtain fully executed contracts before services were provided. Thirty-three contracts were reviewed to determine whether they were approved before the start of the contract period and whether payments were made before the contract was fully executed. Twenty-eight of the contracts examined (84.8%) were not approved prior to the start of services. Of these 28 contracts, 20 (71.4%) were approved more than a month after the beginning of the contract period, 6 (21.4%) were approved more than 15 days after the beginning of the contract period, and 2 (7.2%) were approved more than two months after the beginning of the contract period. A separate sample of contract expenditures revealed two additional contracts that were not approved before the start of the contract period. One of the contracts was approved about a month after the beginning of the contract period, and the other contract was approved more than four months after the beginning of the contract period. Payments against all contracts were processed after final approval was obtained.

If contracts are not fully executed before services are rendered, the state could be obligated to pay for unauthorized services.

Recommendation

The contract process should be initiated far enough in advance to allow all necessary parties to approve the contract before the contract period begins. Regular monitoring of the contract process should be performed by management to ensure timely approvals and to reduce the state's possible exposure to unauthorized liabilities.

Management's Comment

We concur. In an effort to ensure all parties have the time necessary to approve contracts, the Department initiates the contract process at least two (2) months prior to their termination or inception. If a signed contract is not received from the contractor within a reasonable time frame, the program will contact the contractor to follow up on the status of the contract. Additionally, the Division of Administrative Services monitors the status of pending contracts to ensure timely approvals and the contract is fully executed prior to services being rendered.

SICK LEAVE BANK

The objectives of the review of the sick leave bank program procedures and controls were to determine whether

- sick leave bank transactions were made for allowable activities,
- sick leave bank transactions were made to eligible employees, and
- sick leave bank transactions were properly authorized and approved.

Key personnel were interviewed to gain an understanding of the department's procedures and controls over the use of leave from the Sick Leave Bank and policies over departmental transfers for sick leave bank members. Supporting documentation was reviewed and payments made from the sick leave bank were tested. There were no findings related to the sick leave bank; however, other minor weaknesses have been reported to management in a separate letter.

PAYROLL AND PERSONNEL

The objectives of the review of the payroll and personnel procedures and controls were to determine whether

- payroll disbursements were made for work authorized and performed;
- payroll was correctly recorded as to amount and period;
- payroll was distributed properly by account, fund, and budget category; and
- performance evaluations were completed in the time period required.

Key personnel were interviewed to gain an understanding of the department's procedures and controls over payroll. Supporting documentation was reviewed and payroll transactions for the department were tested. There were no findings related to payroll; however, other minor weaknesses have been reported to management in a separate letter.

FINANCIAL INTEGRITY ACT

The Financial Integrity Act of 1983 requires each executive agency to annually evaluate its systems of internal accounting and administrative control and report the results of its evaluation to the Commissioner of Finance and Administration and the Comptroller of the Treasury by December 31 of each year.

The objectives of the review of the Department of Personnel's compliance with the Financial Integrity Act were to determine whether

- the department's reports were filed in compliance with the Financial Integrity Act of 1983,
- documentation to support the department's evaluation was properly maintained,
- procedures used in compiling information for the reports were adequate, and
- corrective actions have been implemented for weaknesses identified in the reports.

Key employees responsible for compiling information for the reports were interviewed to gain an understanding of the procedures. The supporting documentation for these procedures was reviewed and the reports submitted to the Comptroller of the Treasury and to the Department of Finance and Administration.

The Financial Integrity Act report was submitted on time, and support for the report was adequate.

PRIOR AUDIT FINDING

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Department of Personnel filed its report with the Department of Audit on December 11, 1997. A follow-up of the prior audit finding was conducted as part of the current audit.

RESOLVED AUDIT FINDING

The current audit disclosed that the Department of Personnel has corrected the previous audit finding concerning protection of the State Employees Information System datasets.

APPENDIX

DIVISIONS AND ALLOTMENT CODES

Department of Personnel divisions and allotment codes:

319.01 Division of Executive Administration

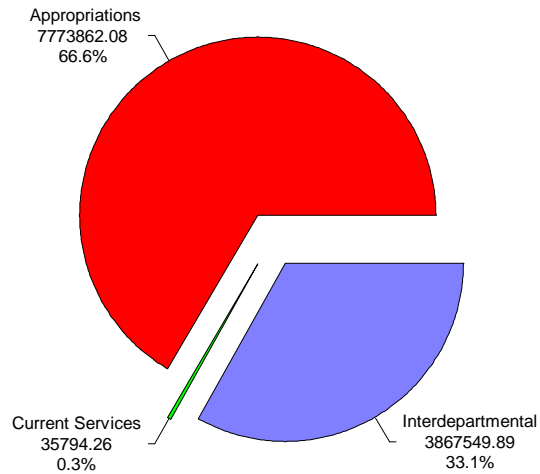
319.02 Division of Human Resources

319.03 Division of Technical Services

319.99 Sick Leave Bank

Funding Sources

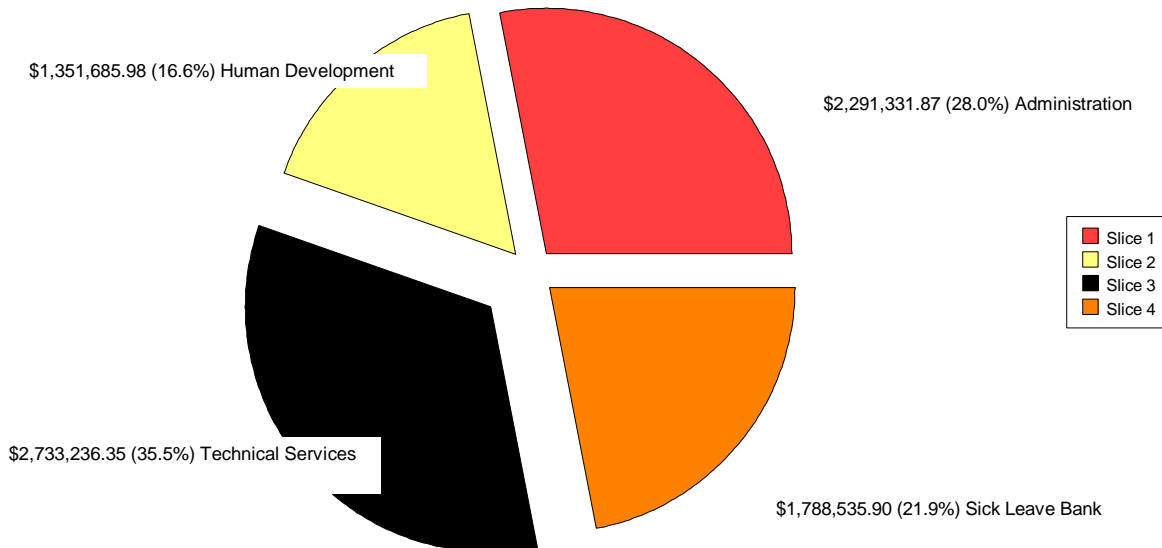
Fiscal Year Ended June 30, 1998 (Unaudited)



Source: Department of Personnel

Expenditures by Allotment

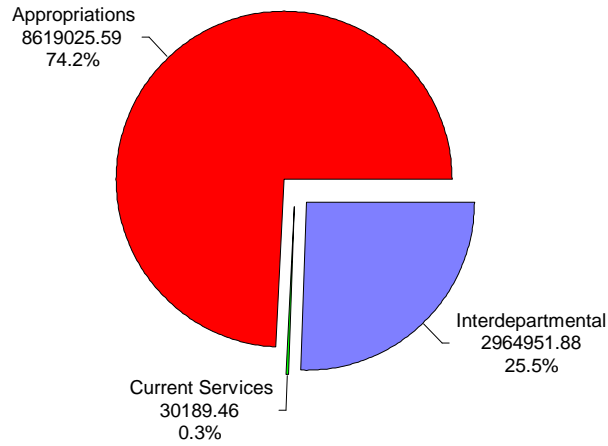
Fiscal Year Ended June 30, 1998 (Unaudited)



Source: Department of Personnel

Funding Sources

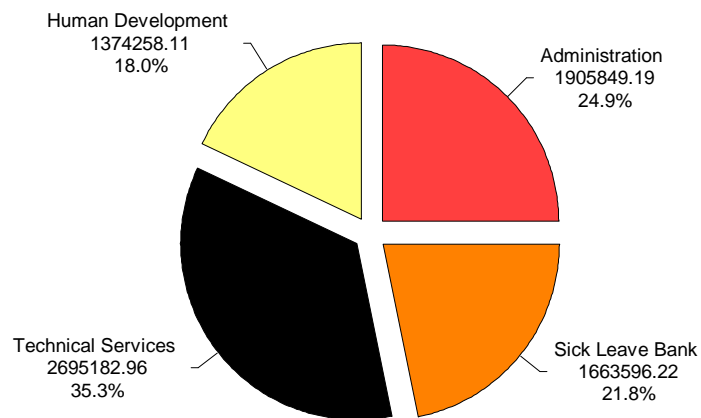
Fiscal Year Ended June 30, 1997 (Unaudited)



Source: Department of Personnel

Expenditures by Allotment

Fiscal Year Ended June 30, 1997 (Unaudited)



Source: Department of Personnel